

The Treasury Management Activity Mid-Year Report – 2025/26

1. Background

1.1 The Treasury Management and Annual Investment Strategy for 2025/26 was approved by Full Council on 11 February 2025.

1.2 The Strategy was prepared within the context the financial challenge being faced by the County Council over the Medium Term Financial Plan and seeks to compliment the Council Plan by:

- ensuring the investment portfolio is working hard to maximise income by seeking appropriate investment opportunities that meet the Council's security requirements during 2025/26.
- reviewing the Capital Programme to reduce the level of investment of core council funded programmes that would otherwise increase the Council's borrowing requirement.
- utilising cash balances to fund the Council's borrowing need in order to minimise borrowing costs as far as possible.
- ensuring effective management of the borrowing portfolio by exploring rescheduling opportunities and identifying and exploiting the most cost effective ways of funding the Council's borrowing requirement.

1.3 There were no changes in the Annual Investment Strategy recommended for 2025/26.

2. Investment Activity to 30 September 2025

2.1 The Bank of England cut bank rate twice, the movement summarised below.

	New Rate	Movement
8 May 2025	4.25%	-0.25%
7 August 2025	4.00%	-0.25%

2.2 During the first half year investments have been held in Money Market Funds, high quality Banking names, other Local Authorities and the CCLA Local Authority Property Fund. Counterparty credit quality remains a primary concern for the treasury team, with security, liquidity and yield in that order a priority.

2.3 Measures have been undertaken to ensure that levels of liquidity are available during the last 6 months but also opportunities explored to lock in returns in a falling interest rate environment to secure investment returns. However, balances available in the first 6 months of the year have averaged at the lowest level for over a decade.

2.4 Deposits held for liquidity purposes in Money Market Funds have provided a return inline to the prevailing base rate.

2.5 Where possible, fixed term bank deposits have been reinvested up to a period of 12 months securing a fixed rate of return between 4.09% - 4.90% within a low credit risk parameter. Local Authority deposits have been placed in the period at rates ranging between 4.10% - 4.90%, for durations between 3 to 12 months. Their inclusion forms part of a balanced portfolio.

2.6 The average investment balance to September 2025 was £135m and generated investment income of £3.3m. The forecast for 2025/26 is £4.9m and dependent on cashflow and the future interest rate environment.

Investment Risk

2.7 During the half year monitoring of the security of the Council's investment has taken place, to assess the risk of investments losing their value. These risks were assessed using the financial standing of the groups invested in, the length of each investment, and the historic default rates. The investment strategy sets an allowable risk level of 0.050% (i.e. that there is a 99.95% probability that the Council will get its investments back). The actual indicator ranged between 0.007% and 0.008%, reflecting the high proportion of investments held in highly secure and/or very liquid investments.

Investment Risk benchmark	0.050%
Maximum investment risk experienced Q1-Q2	0.008%

Investment Benchmarking

2.8 The average investment return during the period was 4.63% over-performing the benchmark rate by 44 basis points (or 0.44 percentage points). The over performance can be attributed to the falling interest rate environment and a number of investments yet to mature in the portfolio previously placed at higher rates.

Average Investment Balance Q1-Q2 £m	Average Investment return Q1 & Q2	Average Benchmark Rate*	Difference
134.974	4.63%	4.19%	0.44%

**the Benchmark rate used is the Standard Overnight Index Average; a rate administered by the Bank of England based on actual transactions of overnight borrowing by financial institutions.*

3. Borrowing Activity to 30 September 2025

3.1 No short term loan borrowing was arranged during the period. Future short-term borrowing in the current year is not forecasted but remains an option to cover temporary cashflow requirements.

3.1 During Q1 an opportunity to reduce the cost of borrowing was undertaken. The last remaining non PWLB loan (with Barclays) was repaid early at a discount to the initial loan value. The principal of £6.45m with a maturity date of October 2058 was repaid at a final settlement figure of £5.39m and funded from existing cash resources. Savings from the discounted repayment of approximately £0.1m per year will be spread over the next 10 years in line with accounting standards. Further restructuring opportunities are constantly monitored.

3.2 The level of Council long-term debt at 30 September 2025 was £200.1m, two loans matured with the PWLB during the period on the 30 June (£2m & £3m) held at 7.625% and 7.125%. The next PWLB maturities are on the 30 June 2026, totalling £5.5m at a rate of 7.125%. This maturing debt was not replaced to maintain the strategy to maximise use of reserves to initially fund borrowing

3.3 The forecast for interest paid on long-term debt in 2025/26 is approximately £8.9m and is within the budgeted provision.

Borrowing Benchmarking

3.5 The table below shows the Council's total external borrowing and average rate as at 30 September 2025:

	Balance as at 30 September 2025 £m	Average Rate
PWLB	200.142	4.38%
Market Loan	-	-
Total borrowing	200.142	4.38%

3.6 The table below shows the forecast of the Capital Financing Requirement (CFR) compared to the estimate within the 2025/26 strategy approved in February 2025. The CFR is expected to give rise to new borrowing required of £105.737m by the end of the year, compared to the original estimate of £70.000m following an increased capital programme borrowing need in 2024/25 carried forward. The strategy currently forecasts that the level of reserves and balances in the medium term allows for internal borrowing (using internal resources such as useable reserves or temporary working capital) of at least £75.000m in 2025/26. It is therefore expected that new borrowing of £30.737 may be required to support the capital programme during 2025/26, although the timing of borrowing will be considered in the context of the wider treasury management position and economic environment.

Capital Financing Requirement (CFR) (Underlying Borrowing Need)	Original Estimate 2025/26 £m	Revised forecast as at 30 September 2025 £m
Opening CFR	268.971	292.380
Borrowing Need	15.812	21.835
Minimum Revenue Provision	(8.111)	(8.336)
Closing CFR	276.672	305.879
External Borrowing as at 30 September 2025		200.142
Forecast Under borrowing (if no action taken)		105.737

3.7 The table below shows that the Council is operating within the Operational Boundary and Authorised Borrowing Limits set within the Treasury Management strategy and has sufficient headroom to cover the borrowing need arising from the year's capital programme.

Borrowing Limits	Operational Boundary £m	Authorised Borrowing Limit £m
Limit set for 2024/25	362.000	382.000
Less: PFI & Leases	(76.000)	(76.000)
Limit for Underlying Borrowing	286.000	306.000
Actual External Borrowing at 30 September	200.142	200.142
Headroom*	85.858	105.858

**Authorised Borrowing headroom cannot be less than zero*

3.8 The maturity profile of the Authority's borrowing is within the limits set within the strategy.

Maturity Structure of borrowing	Lower Limit set	Upper Limit set	Actual as at 30 September 2025
Under 12 Months	0%	25%	1%
12 months to 2 years	0%	40%	4%
2 years to 5 years	0%	60%	5%
5 years to 10 years	0%	70%	23%
Over 10 years	0%	90%	67%

4 Economic update (commentary supplied by MUFG) - September 2025.

4.1 The first half of 2025/26 saw:

- A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
- The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.
- CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
- The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.
- The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.

4.2 From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q. Nonetheless, the 0.0% m/m change in real GDP in July will have caused some concern, with the hikes in taxes for businesses that took place in April this year undoubtedly playing a part in restraining growth. The weak overseas environment is also likely to have contributed to the 1.3% m/m fall in manufacturing output in July. That was the second large fall in three months and left the 3m/3m rate at a 20-month low of -1.1%. The 0.1% m/m rise in services output kept its 3m/3m rate at 0.4%, supported by stronger output in the health and arts/entertainment sectors. Looking ahead, ongoing speculation about further tax rises in the Autumn Budget on 26 November will remain a drag on GDP growth for a while yet. GDP growth for 2025 is forecast by Capital Economics to be 1.3%.

4.3 Sticking with future economic sentiment, the composite Purchasing Manager Index for the UK fell from 53.5 in August to 51.0 in September. The decline was mostly driven by a fall in the services PMI, which declined from 54.2 to 51.9. The manufacturing PMI output balance also fell, from 49.3 to 45.4. That was due to both weak overseas demand (the new exports orders balance fell for the fourth month in a row) and the cyber-attack-induced shutdown at Jaguar Land Rover since 1 September reducing car production across the automotive supply chain. The PMIs suggest tepid growth is the best that can be expected when the Q3 GDP numbers are released.

4.4 Turning to retail sales, and the 0.5% m/m rise in volumes in August was the third such rise in a row and was driven by gains in all the major categories except fuel sales, which fell by 2.0% m/m. Sales may have been supported by the warmer-than-usual weather. If sales were just flat in September, then in Q3 sales volumes would be up 0.7% q/q compared to the 0.2% q/q gain in Q2.

4.5 With the November Budget edging nearer, the public finances position looks weak. Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the OBR forecast at the Spring Statement in March. The overshoot in the Chancellor's chosen fiscal mandate of the current budget is even greater with a cumulative deficit of £15.3bn. All this was due to both current receipts in August being lower than the OBR forecast (by £1.8bn) and current expenditure being higher (by £1.0bn). Over the first five months of the financial year, current receipts have fallen short by a total of £6.1bn (partly due to lower-than-expected self-assessment income tax) and current expenditure has overshot by a total of £3.7bn (partly due to social benefits and departmental spending). Furthermore, what very much matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the Chancellor's fiscal mandate bites. As a general guide, Capital Economics forecasts a deficit of about £18bn, meaning the Chancellor will have to raise £28bn, mostly through higher taxes, if she wants to keep her buffer against her rule of £10bn.

4.6 The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nine of the ten months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October Budget. The number of job vacancies in the three months to August stood at 728,000. Vacancies have now fallen by approximately 47% since its peak in April 2022. All this suggests the labour market continues to loosen, albeit at a declining pace.

4.7 A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.8% in July. The rate for the private sector slipped from 5.5% to 4.7%, putting it on track to be in line with the Bank of England's Q3 forecast (4.6% for September).

4.8 CPI inflation fell slightly from 3.5% in April to 3.4% in May, and services inflation dropped from 5.4% to 4.7%, whilst core inflation also softened from 3.8% to 3.5%. More recently, though, inflation pressures have resurfaced, although the recent upward march in CPI inflation did pause for breath in August, with CPI inflation staying at 3.8%. Core inflation eased once more too, from 3.8% to 3.6%, and services inflation dipped from 5.0% to 4.7%. So, we finish the half year in a similar position to where we started, although with food inflation rising to an 18-month high of 5.1% and households' expectations for inflation standing at a six year high, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.

4.9 An ever-present issue throughout the past six months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the “Liberation Day” tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended Q2 at 4.50%.

4.10 More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves’ future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK’s fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England have kept yields elevated over 4.70%.

4.11 The FTSE 100 fell sharply following the “Liberation Day” tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 closed Q2 at 8,761, around 2% higher than its value at the end of Q1 and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed Q3 at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors’ global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings.

MPC meetings: 8 May, 19 June, 7 August, 18 September 2025

4.12 There were four Monetary Policy Committee (MPC) meetings in the first half of the financial year. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June’s vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for “signs of weak demand”, “supply-side constraints” and higher “inflation expectations”, mainly from rising food prices. By repeating the well-used phrase “gradual and careful”, the MPC continued to suggest that rates would be reduced further.

4.13 In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was “finely balanced” and reiterating that future rate cuts would be undertaken “gradually and carefully”. Ultimately, Governor Bailey

was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC will be wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.

4.14 The Bank of England does not anticipate CPI getting to 2% until early 2027, and with wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction).

4.15 The Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that “a gradual and careful” approach to rate cuts is appropriate suggests the Bank still thinks interest rates will fall further but possibly not until February, which aligns with both our own view and that of the prevailing market sentiment.

5.0 Interest rate forecast to September 2028

5.1 MUFG, has provided the following forecast as at 30 September 2025.

MUFG Corporate Markets Interest Rate View 11.08.25													
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
BANK RATE	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

5.2 MUFG Corporate Markets’ latest forecast sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.